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SUBJECT: Zambia's Tourism Sector

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¶1. (SBU) Summary: The global economic downturn and the subsequent drop in commodity prices, particularly copper, have forced the Government of Zambia (GRZ) to re-examine one of its most neglected economic sectors, tourism. Despite Zambia's natural wonder - Victoria Falls - and abundant wild game parks, the ambivalent management of the sector by the GRZ reflects two key legacies: its socialist history and the related perception that foreign investors reap the benefits without giving back to the local communities. To successfully unlock Zambia's potential in tourism, the GRZ must tackle these legacies. End Summary.

¶2. (SBU) In its effort to diversify its economy away from its dependence on the always-undependable price of copper, the GRZ has identified tourism and agriculture as the two priority sectors with the most economic development and job creation potential. Government officials have recently been quoted in the press expressing optimism that tourism will create new jobs to offset job losses in the mining sector.

¶3. (SBU) Despite its enormous range of tourism attractions, including world-class game-viewing opportunities and natural wonders, Zambia is one of the least-developed tourism destinations in southern and eastern Africa. Although the 2010 FIFA World Cup is coming to nearby South Africa, Zambia appears ill-prepared to draw from (or cater to) the influx of tourists to the region. Zambia - the Real Africa...

¶4. (SBU) Zambia's 17 protected game parks, 34 game management areas and natural attractions provide world-class tourism possibilities. However, beyond a few well-traveled destinations such as Victoria Falls and South Luangwa National Park (often cited as one of the top ten game parks in the world), tourism in Zambia is a still-developing sector that, along with other commercial sectors in Zambia, is still struggling to overcome a legacy of state control that only ended in the mid-1990s.

¶5. (SBU) The Zambian Tourism Board (ZTB) introduced a five-year "Visit Zambia" marketing campaign in 2005, using a "Zambia - the Real Africa" tagline to entice potential visitors. From a baseline of 515,000 tourist arrivals and \$174 million in direct tourism receipts in 2004, the GRZ has set a goal of one million visitors and \$300 million in receipts by 2010. According to the ZTB, 2006 drew over 756,000 tourists, a 13 percent increase over 2005, and over 850,000 tourists visited Zambia in 2008. Much of the increase in recent years reflects the negative impact of political turmoil in Zimbabwe and redevelopment of 4 star and 5 star hotels near Victoria Falls by Sun International Hotels (Note: Victoria Falls can be viewed from both Zambia and Zimbabwe). The GRZ estimates that tourism currently contributes approximately six percent of GDP when direct and indirect linkages are included. Despite this impressive growth, the economic downturn is likely to disrupt the GRZ's goal of one million tourists by 2010, and the receipts goal (reaching 8 percent of GDP) is unlikely to be met.

...With a Real African Approach to Business

¶6. (SBU) The increases in sheer visitor numbers hide numerous problems plaguing the tourism sector, however, and recent government budgets have not addressed critical constraints to tourism, such as inadequate infrastructure, an expensive, unskilled, and unhealthy labor force, and high transport costs. Additionally, tourism operators face the same obstacles as other private sector firms.

Over-regulation and burdensome taxation make doing business in Zambia difficult and expensive. Relative to other countries in the region, Zambia is a high-cost, high-effort destination; the average daily expenditure of a tourist in Zambia is about 30 percent higher than in competing countries, and as a landlocked country, Zambia must rely on increasingly expensive air links for the bulk of its tourist arrivals. The USAID-funded Market Access, Trade and Enabling Policies Program (MATEP) conducted a competitiveness study which showed that, on average, a Zambian tourism enterprise is between 60 and 100 percent more expensive to operate than those in other countries in southern and eastern Africa.

¶17. (SBU) In addition, Zambia does not have an effective tourism classification and standards system, and while a new Tourism and Hospitality bill was passed in 2007 to try and address the complex and costly licensing requirements, tourism operators complain that not many improvements have been made and, in some areas, the new law marks a setback. These realities were highlighted in a 2007 World Bank Study, which illustrated that Zambia continues to underperform in tourism compared to neighboring countries. As a result, most tourists visit only one site (only 12 percent of tourists more than one), stay less than seven days, and generally package Zambia with other destinations in the region.

¶18. (SBU) The GRZ, particularly its officials who retain ties to previous socialist governments, perceives the private sector as a source of income, rather than an engine of growth and development. Consequently, regulatory barriers abound (hotels can be required to obtain several dozen operating licenses) and taxes are high (and generally rise if a sector begins to show promise). In tourism, the government has underinvested in marketing and wildlife protection. Additionally, some in government believe that the tourist sector is controlled by and benefiting only foreign citizens. The head of the Tourism Council of Zambia, a private sector-led industry association, told poloff that former minister of finance Ng'andu Magande once said to her, "Tell me what your tourism brings us," because he believed that foreign operators repatriated their profits

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to their home countries instead of keeping them in Zambia. President Banda also was in the headlines recently complaining that white safari operators were blocking Zambian operators from opening lodges in the popular South Luangwa area.

¶19. (SBU) A recent study of the economic impact of tourism in Zambia found that of the average USD 1,100 that each tourist spends in Zambia, only USD 200 is "leaked" - that is, leaves Zambia to pay for goods not available here. The USD 900 per person expenditure that remains compares favorably with the amount spent per tourist in South Africa (USD 879). This may explain the GRZ's renewed interest in the tourist sector, as it repudiates the public's perception that foreign investors in tourism are repatriating their profits.

¶110. (SBU) The economic downturn and the subsequent loss of jobs in the mining sector have these traditionalists re-evaluating their skepticism toward tourism and hoping the tourism sector can absorb job losses from the mines. Despite some resentment towards foreign investors, Minister of Tourism, Environment and Natural Resources Namugala recently promised that the GRZ "will do everything possible to ensure that all processes pertaining to facilitating investment in the country are expedited so that investors are able to start operations as quickly as possible." If You Build It, They Will Come

¶111. (SBU) As part of this plan to attract investment, Zambia has bold plans to diversify the tourism sector and promote attractions outside of the popular Livingstone and South Luangwa areas. Minister of Finance Situmbeko Musokotwane recently urged World Bank Group's International Finance Corporation to partner with the GRZ to help develop Kasaba Bay, on Lake Tanganyika in Northern Province, into a major international travel destination, which Minister Namugala described as a "pristine ... world class destination." Minister of Commerce Trade and Industry told the Ambassador in November 2008 that the GRZ hoped to entice visitors to do a circuit of Livingstone/Victoria Falls, South Luangwa Game Park, and Kasaba Bay (for beaches). He hoped that low-end tourism would be more immune to financial crises than high-end, but his strategy for attracting budget hotels was to attract five-star facilities first. In addition, he was not able to explain how to get budget travelers to take three (expensive) domestic flights to get to each of these places, to which there are not adequate roads. Despite the lofty

rhetoric, Kasaba Bay lacks the basic infrastructure required to even begin such a project. Roads, airport facilities, electricity, water and telecommunications are currently insufficient or nonexistent.

¶12. (SBU) To address the infrastructure shortfalls, the GRZ trebled the tourism budget in 2009, 65 percent of which (USD 10 million) will go toward electrification, roads and airports at Kasaba Bay. The GRZ assured skeptics that as many as 12 hoteliers had expressed interest in investing in Kasaba Bay to turn it into a world class conference venue.

¶13. (SBU) The Zambia Wildlife Authority (ZAWA) and the Ministry of Tourism, Environment and Natural Resources - both key institutions given tourism's close links to nature in Zambia - have been severely under funded. The Zambian Tourism Board also received very little government support - its budget was \$1.5 million in 2006, compared to budgets for similar regional boards of \$7 million in Botswana and \$6 million in Namibia. Minister of Tourism Namugala recently dissolved the boards of both the Zambia Wildlife Authority (ZAWA) and Zambia Tourism Board (ZTB), suggesting that she considered them obstacles to sectoral growth. Namugala recently said that while "budget constraints are the national anthem of Zambia," tourism sector promotion does not require a large budget. In her speech at the opening of the second annual Zambia International Travel Show (ZITS), Minister Namugala also suggested that the tourism sector should continue to look at Zambia as a regional destination and encouraged attendees to piggyback efforts of neighbors like Botswana to benefit from their better funded international tourism promotion.

2010 World Cup; Is Zambia Ready?

¶14. (SBU) With just over one year until the opening match of the 2010 World Cup, Zambia seems largely unprepared to gain from the increased visitors to Southern Africa. While original estimates predicted over 900,000 visitors, South Africa World Cup organizers have drastically revised that number by more than one-half, in light of the global economic downturn.

¶15. (SBU) Despite te numerous obstacles, Namugala recently challenged the tourism sector to attract 20 percent of World Cup visitors to South Africa. Her optimism, however, is not an accurate reflection of the sectors capability at this time, and her statement from the ZITS further reflects the GRZ's haphazard approach to tourism promotion. Simply put, the capacity to bring such a large number of tourists to Zambia, let alone to house them all, in such a short period of time, does not currently exist. In addition, a representative poloff spoke with at ZITS suggested that World Cup fans can not be viewed as typical tourists expected to travel extensively, particularly during the current economic crisis.

¶16. (SBU) Comment: The GRZ's desire to exploit its tourist potential is prudent, but the challenges to unlocking Zambia's potential are considerable. It does not have the resources or the capacity to create the infrastructure for mass tourism. It would be better off focusing on the facilities that it does have and bringing their 3-star quality up to the level of their 5-star prices. In the near

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term, however, it should focus upon alleviating the difficulty of doing business in the country -- regardless of the sector. By rationalizing regulations and standardizing taxation, it could unleash potential in tourism and other critical sectors.

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